



Committee report

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| Committee | CABINET |
| Date | THURSDAY, 25 JULY 2013 |
| Title | AWARD OF CONTRACTS FOR THE PROVISION OF SITE SURVEYS AND FRONT END ENGINEERING DESIGN – SOLENT OCEAN ENERGY CENTRE PROJECT |
| Report to | CABINET MEMBER FOR TOURISM AND THE ECONOMY |

EXECUTIVE SUMMARY

1. The council-sponsored Solent Ocean Energy Centre (SOEC) is expected to create / safeguard over its operating lifetime 600 Full Time Equivalent jobs; at least 30% of these jobs being on the Isle of Wight. The project will also enhance the Island's reputation as a centre of excellence in renewable energy technologies and an innovative place for businesses to invest.
2. The council is part of a joint venture company, Perpetuus Tidal Energy Centre Ltd (PETEC) which it has established with the private sector to develop the project. As part of its contribution to the work of PETEC the council needs to award a contract for some of the key elements associated with the project.
3. The same company has successfully bid for both lots tendered which have a combined maximum value of £1,627,601. Given the value of the contract to be let to a single contractor and that this has been a key project for the council for some time, Member approval is sought to appoint the Royal Haskoning DHV to provide the required services.

REASONS FOR URGENCY

4. The council's constitution sets out that, most contracts can be let (subject to relevant delegated authority) without formal reference to members. Only where a contract has a whole life value of over £1.5 million or be deemed to be of particularly high risk, sensitivity, value or other substantial effect on the council's corporate objectives or its reputation, shall the Cabinet (or where appropriate the designated cabinet member) be asked to confirm their agreement to the tender award.
5. The contract opportunity for the services to be provided was divided into two lots with an estimated total value of £1.5 million. The council had no preference for letting the services to one bidder or two and it was only after a full evaluation that the same bidder was selected for both lots and the total contract price known. In discussion with the Leader

and Deputy Leader it was agreed that given the profile of the project and in order to be transparent about the award of the contract it should be agreed by the Cabinet.

6. It was also agreed that an urgent meeting of the Cabinet should be held so that the momentum in the project could be maintained and the project delivered in accordance with the plan last seen by Members in January 2013.
7. The chairman of the Overview and Scrutiny Committee has been consulted on this report and the reasons for the urgent decision which he agrees is necessary. Consequently he has agreed that provision for scrutiny 'call in' on this decision be disapplied, given the short timescales and its importance to the local economy.

BACKGROUND

8. The Isle of Wight has a rich and diverse tidal resource in physically protected waters making it an ideal location to develop a marine energy centre to complement the existing test and support infrastructure available within the UK. The concept of the Solent Ocean Energy Centre (SOEC) located at St Catherine's Point off the south of the Island, has been developed to make use of these natural resources and in response to the growing demand for testing facilities for Marine Current Energy Converters (MCECs).
9. In order to establish PETEC the council has been able to secure an Agreement for Lease (AfL) with the Crown Estate for an area of sea bed off St Catherine's Point. The principal terms of the AfL were agreed by Cabinet in October 2012. The AfL provides the council with a 4 year option for a 20 year lease on the PETEC development site. During the option period the phase 1 works necessary for the creation of the facility can be completed to inform the implementation of the phase 2 activities and exercising of the lease option with the Crown Estate
10. Following the decision of the Cabinet in January 2013 the council is now part of a joint venture company with two private sector partners to take the project forward. The company, Perpetuus Tidal Energy Centre Ltd (PETEC) is now leading the work for the development of the testing facilities for MCECs off the south coast of the Island.
11. PETEC is a new company in which each party will have a shareholding proportionate to its level of committed investment in the company and previous investment in the project. The council is guaranteed a minimum of one seat on the Board of the company (represented by the Director of Economy and Environment) and has a fixed 15% shareholding. It has a number of controls over the decisions of the company for as long as it is the beneficiary of the Agreement for Lease with the Crown Estate.
12. The aim of the PETEC is the creation and management of the Solent Ocean Energy Centre on the Isle of Wight for the testing and development of marine current energy convertors and the supply of electricity into. It's objectives are:-
 - To support the development of the UK tidal energy industry by offering an accessible grid connected testing facility for marine current energy convertors.
 - Provide maximum economic benefit by employing local labour and suppliers where reasonably possible.
 - Provide opportunities for the training and development of the local labour force to increase its skills and capacity in the sector and support the organisation

13. PETEC is intended to be suitable for a wide range of tidal technologies and testing parameters. It will allow different businesses to test the viability and value of tidal devices and arrays at different phases of development without the expense and commitment of having to secure and develop individual test sites.
14. PETEC is designed to fill a critical gap in the market for MCECs. It will:
- (a) Significantly help to support, reduce costs, reduce risk and accelerate technological advancement in the marine energy sector.
 - (b) Assist in the creation of a UK-wide marine energy manufacturing industry with significant economic impacts.
 - (c) Facilitate the essential boost in commercialisation of marine current energy by driving down the cost of production which is critical to its long term viability.
15. The scope of PETEC is summarised in the appendix to this report and is planned in two phases:
- (a) **Phase 1 (to be delivered between November 2012 and Q2 2015):**
 - Project development and management, including continued engagement with strategic partners, delivery partners, phase 2 funding partners and anchor tenants.
 - Critical assessments and surveys.
 - Detailed engineering and design.
 - Obtain consents and licences.
 - Establishment of a Joint Venture Company (JVCo) to operate the facilities.
 - (b) **Phase 2 (to be delivered between Q3 2015 and Q4 2016)**
 - Construction.
 - Commissioning and mobilisation.
 - The expected commercial operation date (COD) of the demonstration site is January 2017.
16. A future aspiration, and made possible through PETEC, is the development and implementation of a 200-300 MW commercial tidal farm to the south of the demonstration site. This project would significantly impact the UK and local economy, with an estimated project value of approximately £1.25 billion over 25 years and the creation / safeguarding of around 150 FTE (averaged) jobs over the same period, most of which will be based on the Isle of Wight, helping to rebalance the private / public sector job mix.
17. PETEC will also facilitate the creation of a cluster of an onshore group of hard and soft assets; including a world class offshore renewables supply chain, a well-established maritime and offshore skills base, and a world leading support and development infrastructure. Specific to PETEC, it will comprise a portside facility and technology centre where device developers will be able to establish office bases, carry out design work and modifications in workshop units and assemble up to full-size tidal turbines for deployment. The facility will have suitable wharfage for deployment vessels and cranes to load devices on and off the vessels.

18. The economic impact of PETEC is estimated to be significant; through both economic growth and the creation and safeguarding of jobs. PETEC, split over its key implementation stages, is predicted to have the following job impacts:
- (a) **Phase 1** – creation / safeguarding of approximately 74 jobs (gross FTE equivalent) over the delivery period (2.5 years).
 - (b) **Phase 2** – creation / safeguarding of approximately 480 jobs (gross FTE equivalent) over the delivery period (1.5 years).
 - (c) **Enablement** – through the completion of Phases 1 and 2, further long-term jobs will be created / safeguarded resultant from i) the operation of PETEC ii) the MCEC supply chain (related to deployment at PETEC), iii) future MCEC device sales, and iv) support services associated with MCEC device sales. In total, it is predicted that over a 20-year period post-PETEC commissioning, an average of 600 FTE jobs will be created / safeguarded.

It is expected that over the lifetime of the project a minimum of 30% of these jobs will be created / safeguarded on the Isle of Wight.

19. In order to maintain the momentum of the project, keep it to the planned timetable and meet the 4 year deadline in the Agreement for Lease with the Crown Estate the council has had to initiate the critical phase 1 works as part of its contribution to the joint venture company. It was also important that the council take responsibility for the organisation of the works in order to maximise the benefit of the European Union (EU) funding it has been able to secure for the project. These works involve two distinct but interrelated work streams:
- (i) Consents and Licensing (C&L) – consisting of stakeholder engagement, onshore and offshore assessments and surveys, and the production of an environmental statement which satisfies the environmental impact regulations.
 - (ii) Front End Engineering and Design (FEED) – which specifies, and costs, in detail the onshore and offshore electrical and communications infrastructure prior to phase 2 procurement; establishes an onshore and offshore operations plan; and finalises key risk management, Construction Design Management (CDM) compliance and health and safety policies.
20. The council has undertaken an open tender process for these services, compliant with the Public Contract Regulations and EU Directives. Bidders were required to provide fixed fees for each work stream taking into account the maximum extent, in terms of type and quantity of assessments and surveys required. Bidders were able to bid for one or both lots.
21. Twelve companies submitted tenders for the contract but only eight were submitted compliant tenders. Following a detailed evaluation process, Royal Haskoning DHV was selected as the preferred bidder under both lots. The contract values are shown below:

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|------------------------------|------------|
| Consents & Licences | £1,199,997 |
| Front End Engineering Design | £ 427,604 |

22. The total contract value of £1,627,601 will be reduced by £213,020 if the initial surveys are sufficient that an additional 12 months of bird surveys and consenting support are not required.

STRATEGIC CONTEXT

23. The benefits which PETEC could realise for the Island support the “Framework for Change” priority for economic development and regeneration. It will help to attract new technologies and high tech companies to the Island and meet ‘...*the objective of putting in place an environment that is business friendly, in order to develop and sustain existing business and attract new business*’. The development of PETEC is also an important area of activity in the council’s economic development delivery action plan under the theme of “promotion and expansion of renewable energy activities”.
24. The development of the Solent Offshore Renewable Energy Consortium (SOREC) is an important and complementary piece of work which the council has also developed under this same theme of the economic development delivery action plan. This three year project which will establish an employer’s organisation for offshore renewable energy companies in the south east of England has recently attracted £1 million of European funding towards its realisation.
25. PETEC will also make a contribution towards the aspiration of the Eco-Island community strategy of generating energy from renewable sources. It is also supported by the Solent Local Enterprise Partnership (LEP) whose objectives emphasise that business must be at the heart of economic growth in the sub-region, with a focus on rebalancing the economy, reindustrialising the economic base and regeneration.

CONSULTATION

26. An industry led pre-development programme consisting of extensive market and stakeholder consultation coupled with significant investment in technical studies has informed the development of the project which is intended to have the maximum impact on the development of the tidal sector in the UK, and be a commercially viable, ‘bankable’ venture that will create sustainable energy and long-term jobs across the UK.
27. The surveys and assessments to be undertaken during phase 1 have been reviewed by the Marine Management Organisation as part of its formal scoping opinion and the Planning Department has also commented on key issues for both the onshore and offshore infrastructure. This input has been included in the project specification to ensure that it addresses the issues of concern to these regulators.

FINANCIAL / BUDGET IMPLICATIONS

28. The total cost of completing phase 1 of the project is estimated to be between £2.54 million and £3.048 million and the council has allocated £1 million of capital funding in its medium term financial plan towards these costs. The cost of delivering phase 2 is estimated to be between £24.082 million and £28.898 million and this is to be wholly funded by the private sector.

29. Working with other European authorities the council has secured funding worth €844,950 (c£679,677) from the European Union's Interreg NWE Pro-Tide Programme for phase 1 of the project. This funding must be matched by partner funding which will be provided by the council's capital allocation for the project.
30. Funding for the contracts will be from three sources:-

| Source | Funds (£) |
|------------------------------|------------------|
| EU - Interreg NWE 'Pro-Tide' | 376,350 |
| Isle of Wight Council | 376,350 |
| PETEC | 874,901 |
| Total | 1,627,601 |

31. If a consented development site for PETEC is not achieved at the end of phase 1 of the project the £1 million council investment in the project would become a charge to the revenue rather than the capital account.

CARBON EMISSIONS

32. Under the scope of the council's Carbon Management Plan, this project does not contribute to the council's carbon footprint or its carbon allowance requirements under the CRC Energy Efficiency Scheme.
33. The carbon emissions from the implementation of the project will be quantified as part of the Environmental Impact Assessment, with mitigation in place to ensure that they are minimised. Overall, the project will have a positive carbon balance, due to the substantial amounts of renewable energy being generated. If delivered in full it will deliver up to 20 MW of renewable energy into the Island's grid.

LEGAL IMPLICATIONS

34. The procurement process was run in compliance with the Public Contract Regulations 2006 (as amended), as the value of the contract was above the EU threshold for services. The council's Procurement & Legal Team has been closely involved throughout this process and are satisfied that the procurement, including the tender evaluation, has been carried out in accordance with the council's contract standing orders and the Regulations
35. The council will be entering into a contract with the preferred bidder for the provision of these services and will therefore be liable for payments to the contractor. The council will need to enter into a supplier's agreement with PETEC in order to be certain that its contributions to the contract costs are secured.

EQUALITY AND DIVERSITY

36. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil

partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. During the procurement process regard has been had to the equality duty and will continue. The proposal in this report has no direct impact on those with protected characteristics.

OPTIONS

37. The following options are offered for members' consideration: -

Option (i) - Agree to the award of the contracts for consents and licensing and front end engineering design for a total value of £1,627,601 to Royal Haskoning DHV.

Option (ii) - Do not agree to the award of the contracts for consents and licensing and front end engineering design.

RISK MANAGEMENT

38. If the award of the contracts is not approved the council will not be able to exercise its option to lease an area of the sea bed from the Crown Estate for the development of the tidal energy test facility. This option can only be exercised once all of the detailed consents and surveys and the front end engineering design to be undertaken in these proposed contracts have been completed to the satisfaction of the Crown Estate. Without this lease the project could not proceed.
39. Contract mobilisation at the beginning of August is considered critical for many of the surveys that need to be undertaken. If this mobilisation is not achieved by a delay in the award of the contract then there is a risk that weather delays could add many months to the delivery schedule and extend the survey period beyond the anticipated 12 months. Any delays in the completion of the surveys may also impact on the four year window available to the council to exercise its option with the Crown Estate for a lease of the sea bed.
40. There is a risk that not awarding or delaying the award of the contracts may have a negative impact on the business plan and financial projections of PETEC. At the moment it has first mover advantage in respect of the provision of testing facilities for MCECs and is looking to capitalise on this position before other facilities begin to enter the market. If it is not able to meet its 2016 operational date it is likely that many of the currently committed anchor tenants may look to other facilities and that the expected benefits of PETEC to the Island will not be as great as anticipated or not realised at all.
41. The council will be contracting with Royal Haskoning DHV for the provision of these works and will therefore be contractually liable for payments to the contractor although funding for the works is being provided from three separate sources. There is a low risk that if the funding from PETEC is not provided then the council would have to fund all of the costs of the contracts itself. This is mitigated because the company is already capitalised to a sum in excess of the £874,901 required from it and the council, because of its position on the Board of the company is able to influence how the company uses its resources. In addition an Escrow account will be set up in the sum of £500,000 from PETEC for the explicit purpose of funding the works and the council will enter into a supplier's agreement with PETEC ensuring its contractual commitment to make the required payments for the works.

EVALUATION

42. The establishment of the Solent Ocean Energy Centre (SOEC) has been a key element of the council's Economic Development Delivery Action Plan for the past four years and a significant amount of work has been undertaken in establishing the concept and building support for SOEC to the point that it is ready for delivery. The project has always been based on the council working in an enabling role to achieve a lease for the required site from the Crown Estate and secure private sector support to bring the project to life.
43. Throughout the life of the project the council has openly sought input from the private sector to SOEC and especially in securing the necessary finance to construct and operate it. The development of PETEC and the council's role within the company demonstrates how the council can work in partnership with the private sector in order to bring economic benefit to the Island. If the council is not able to award the contracts considered in this report then it may be difficult to develop similar partnerships in the future. The same could be true of its relationship with the Crown Estate if it is not able to exercise its option for the lease of the sea bed.
44. The procurement process for this contract opportunity s has fully complied with all relevant domestic and European legislation. Royal Haskoning DHV has been able to demonstrate that has significant experience in the offshore energy sector and with a strong team of experienced sub-contractors to support its work. It is therefore felt best value will be achieved in the award of the contract to Royal Haskoning DHV.

RECOMMENDATION

It is therefore recommended that Cabinet agree to the following:

- a) Option (i) – Award the contract for consents and licensing and front end engineering design for a total value of £1,627,601 to Royal Haskoning DHV.
- b) Disapply the provision of “Call In”.

APPENDICES ATTACHED

45. [APPENDIX](#) - The Scope of SOEC

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